[JOINT COMMITTEE PRINT]

DESCRIPTION OF S. 1768

RELATING TO

ENERGY TAX CREDIT FOR CERTAIN FISHING VESSEL EQUIPMENT

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

AND THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON NOVEMBER 17, 1983

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INTRODUCTION

The Subcommittees on Energy and Agricultural Taxation, and Taxation, and Debt Management of the Senate Committee on Finance have scheduled a joint hearing on November 17, 1983, on S. 1768 (introduced by Senator Mitchell). The bill would provide a 10-percent energy tax credit for certain specified equipment used aboard, or installed in, fishing vessels. The credit would apply to expenditures for equipment placed in service in 1983, 1984, and 1985.

The first part of the pamphlet is a summary. This is followed in the second part with a description of present law and of the provisions of S. 1768.

I. SUMMARY

In general, the 10-percent business energy investment tax credit expired after 1982. However, the general 10-percent energy credit for certain types of long-term energy projects continues through 1990 if certain affirmative commitments were made in connection with the projects. Also, certain business energy credits (other than the general 10-percent energy credit), such as the 15-percent credit for solar, wind, or geothermal property and the 10-percent credit for biomass property, continue through 1985.

Under S. 1768, a 10-percent energy tax credit would be provided for 11 specified items of equipment used aboard or installed in fishing vessels. The credit would apply for equipment placed in service in 1983, 1984, and 1985.

II. DESCRIPTION OF S. 1768

A. Business Energy Credit Under Present Law

General rules

Prior to 1983, the law provided a general 10-percent investment credit for certain energy property (in addition to the regular investment credit). Property eligible for the general 10-percent energy credit included alternative energy property (*e.g.*, solar, wind, or geothermal property), specially defined energy property, recycling equipment, shale oil equipment, equipment for producing natural gas from geopressured brine, and cogeneration equipment. The general energy credit for these types of property terminated after 1982, except that the credit is allowed through 1990 for long-term projects for which certain affirmative commitments (described below) were made.

A 15-percent energy credit is allowed through 1985 for solar, wind, geothermal, and ocean thermal property. Qualified intercity buses and biomass property are eligible for a 10-percent energy credit. For periods beginning on January 1, 1982, and ending on December 31, 1982, a 10-percent energy credit was allowed for chlor-alkali electrolytic cells. No affirmative commitment rule applies to these properties.

Qualified hydroelectric generating property is eligible for an 11-percent credit through 1985. The credit for hydroelectric property is allowed through 1988 under a special affirmative commitment rule.

Affirmative commitment rules

The general 10-percent energy credit is available after 1982 if specified affirmative commitments were undertaken with respect to qualified property that is part of a project with a normal construction period of two years or more. The credit is allowed for property that is constructed or acquired after 1982 if (1) all engineering studies on the project were completed before 1983, (2) applications for all environmental and construction permits required to commence construction were filed before 1983, and (3) before 1986, binding contracts are entered into to construct or acquire at least 50 percent of the aggregate cost of all equipment that is specially designed for the project.

The 11-percent energy credit for qualified hydroelectric generating equipment is allowed through 1988 if an application is docketed by the Federal Energy Regulatory Commission by January 1, 1986.

Application of the regular investment credit

If energy property qualifies for the regular investment credit, both the regular and energy credits apply. In general, property eli-

gible for the regular investment credit is tangible personal property, excluding buildings and their structural components, that is depreciable. Thus, for example, solar, wind, or geothermal energy air or water heating or cooling systems (which are structural components of buildings) do not qualify for the regular investment credit under present law although they do qualify for energy credits. However, in the case of qualified hydroelectric generating property that is a fish passageway, the regular investment credit, as well as the energy credit, is allowed for any period after 1979, without regard to whether such property otherwise qualifies for the regular investment credit.

B. Explanation of S. 1768

Explanation of Provisions

The bill would provide a 10-percent energy investment tax credit for investments in "qualified harvesting vessel equipment" for 1983, 1984, and 1985. The bill defines qualified harvesting vessel equipment as any of 11 specified items used aboard or installed in a vessel (i.e., a ship or barge) engaged in the harvesting of marine resources (i.e., fish and seafood) if the equipment reduces oil, diesel fuel or gasoline consumption. Under the investment credit rules, the equipment would qualify only if used on, or installed in, a vessel documented under the laws of the United States which is operated in the foreign or domestic commerce of the United States.

The 11 specified items are: (1) a fuel flow meter, or fuel management digital microprocessor, (2) a hull speed meter, (3) a propeller thrust nozzle, (4) a variable pitch or two-speed propeller, (5) a large-bladed propeller, (6) a bow or side thruster, (7) a hull treatment, (8) a bulbous bow, (9) an on-board heat exchanger, (10) auxiliary sail equipment, and (11) automatic Loran C navigational apparatus.

Generally, a fuel flow meter or a fuel management digital microprocessor provides contemporaneous data on the rate of fuel usage in terms of gallons of fuel consumed per hour of running time. This information may help a captain identify when either poor sailing practices or poor maintenance are retarding the ship's performance. A hull speed meter acts in a manner similar to a speedometer except that speed is measured relative to the water rather than fixed geography. Since speed is difficult to judge accurately at sea (because fixed reference points are not readily available), a hull speed meter enables a captain to operate the ship's engines in their more efficient range.

A propeller thrust nozzle is a device which directs the exhaust of a ship's engines at the hub of the propeller. Thus, the exhaust is made to assist the motion of the ship. A variable pitch or two-speed propeller is one which enables the captain to, in effect, shift gears in the same manner that feathering the props on an aircraft changes the work load. A large-bladed propeller effectively allows a ship to develop forward motion at low engine speeds. Use of a large-bladed propeller is similar to installation of a transmission with lower than usual gears in a truck.

Bow and hull thrusters are water jets that assist in turning the vessel. The ability to turn rapidly can reduce the overall distance traveled (and thus the fuel consumed) by a vessel.

A hull treatment would be an antifouling paint or other treatment which prevents the buildup of seaweed or barnacles. Such buildups would cause a drag on the hull and thus increase energy consumption.

A bulbous bow increases the efficiency of a vessel by reducing the drag caused by turbulence.

On-board heat exchangers may be used either to warm heavy fuel oil to make it more fluid before burning or to chill engine coolant. Both processes would increase energy efficiency.

An auxiliary sail may be used to augment or substitute for power from the fuel-burning engines.

An automatic Loran C navigational apparatus uses Coast Guard broadcast information to chart the ship's position. Use of a Loran system reduces risks from navigational errors and may reduce fuel consumption by permitting ships to follow more direct courses.

Effective Date

The bill would apply for property placed in service in 1983, 1984, and 1985.

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